ABN·AMRO Investment Solutions

AAIS Climate statement

January 2021

I. Background on our commitment to contribute to a low carbon economy

Human activities are estimated to already have caused approximately 1.0°C of global warming above pre-industrial levels, with a likely range of 0.8°C to 1.2°C. The temperature increase is likely to reach 1.5°C in the next 10 to 30 years, if it continues to increase at the current rate.[1] Human activities are reflected in increasing emissions of greenhouse gases, the biggest contributor being **carbon**. We see the effects of this temperature rise in extreme weather occurences, such as floods, droughts and heatwaves. In turn, this results in loss of biodiversity, ecosystems, air quality and so on.
Luckily, a large number of countries sees the urgency of the matter. As a result, in December 2015, 196 countries adopted the Paris Agreement: a commitment to hold "the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels". A temperature rise of *well below 2°C* should help to avoid dangerous climate change.

The milestone agreement furthermore states that parties should be "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development".[2]

In line with the Paris Agreement, the European Commission has made two pledges:

a) With the EU's 2030 Climate Target Plan, the Commission pledged to raise the ambition on reducing greenhouse gas emissions to at least 55%[3] below 1990 levels by 2030. This pledge puts the EU on a balanced pathway to reaching climate neutrality by 2050.
b) The European Union is working towards a bloc-wide 2050 net-zero emissions target, under a "Green Deal" published in December 2019.

Our strategy

ABN AMRO Investment Solutions, in line with our parent company ABN AMRO Bank N.V., acknowledges its role in achieving the Paris Agreement objective. ABN AMRO's contribution to the Paris Agreement's goals aligns with our purpose *"Banking for better, for generations to come"* and the bank wide strategy to *"Accelerate the sustainability shift"*.[4] We do not only guide our clients towards sustainable but also want to lead by example ourselves. This is for instance expressed by our pledge to having all our buildings achieve at least Energy Label A by 2023 and to be Paris Proof by 2030.[5]

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[1] IPCC, *Summary for Policymakers,* 2018 (https://www.ipcc.ch/site/assets/uploads/sites/2/2019/05/SR15_SPM_version_report_LR.pdf)
[2] Paris Agreement Article 2.1(c)
[3] The previous target (2015) Paris Agreement was to reduce GHG emissions by 40%
[4] Source: Climate Statement ABN AMRO
[5] https://edge.tech/article/press/abn-amro-partners-with-edge-to-redevelop-current-amsterdam-zuidoost-location-into-a-state-of-the-art-office

Our fiduciary duty

ABN AMRO Investment Solutions, as an asset management company committed to the Principles for Responsible Investment, has a fiduciary duty. This fiduciary duty implies that our clients expect from us that we take environmental, social and governance aspects into account when we offer products to them. More specifically, we believe that our fiduciary duty also means that we should stimulate finance flows towards a well below 2°C scenario.

Regulatory environment

The development of regulation helps us reach this goal. As a French-based asset management company, we are subject to the French Law on Energy Transition and Green Growth, which is designed to commit France to the transition to a carbon neutral economy by 2050. Article 173 of the law introduces disclosure requirements for asset owners on their management of climate-related risks and, more broadly, on the integration of social and environmental parameters in their investment policies. Recently, Article 173 expectations were enhanced with the adoption of the Law on No. 2019-1147 regarding Energy and Climate in November 2019, introducing further specifications related to climate change and biodiversity risks in management policies.
Transparency is key for accountability, and can therefore be a strong force in encouraging the transition to a low carbon or even green house gas emmisions economy. Currently, the European Union is in the process of publishing a renewed sustainable finance strategy, reinforcing what has been laid down by the Sustainable Finance Action Plan, which includes disclosure requirements (Sustainable Finance Disclosure Regulations: SFDR), a green Taxonomy, and Green Bond standards, and has as an overall purpose to direct more financial flows towards sustainable development, to help Europe align with the Paris goals. A large part of this regulation will be effective as of March 2021.

Industry commitments

In July 2019, the French Autorité du Contrôle Prudentiel et de Résolution (ACPR) and the Autorité des Marchés Financiers (AMF) announced a framework to monitor and evaluate climate-related commitments made by banks, insurers, and asset management companies.[6] In line with this collective commitment made by the French financial industry, the Association Française de la Gestion financière (AFG)[7] has encouraged asset management companies to adopt a "coal strategy". Coal is the leading source of Greenhouse Gases: 40% of GHG are attributable to coal, 32% to oil and 19% to natural gas.[8]
At Group level ABN AMRO is involved in several industry commitments and initiatives specifically focused on combatting climate change, for example The Partnership Carbon Accounting Financials (PCAF), the Task Force on Climate-related Disclosures (TCFD), the Dutch Climate Accord for the financial sector and the Finance for Biodiversity Pledge.

II. Relevant risk types

Sustainability risk nowadays commonly considered to have a potential impact on an investee company's (long term) financial performance. Investors (as many other financial market participants and regulators) acknowledge this and are increasingly asking for insights into the potential sustainability risks associated with a company to assess the likelihood of a financial impact on the company. As an asset management company, we too want to have insights into the risks associated with the portfolios on our platforms. We identify several risks related to Climate below. We refer to our Sustainability risk statement on how we deal with these risks.

Sustainability risk

The SFDR defines sustainability risk as any environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment.

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[6] https://www.amf-france.org/en/news-publications/news-releases/amf-news-releases/amf-and-acpr-publish-their-first-report-monitoring-and-evaluation-financial-institutions-coal

[7] The Association Française de la Gestion Financière (French Asset Management Association - AFG), who represents and promotes the interests of third-party asset management professionals.

[8] AFG: Guide to Developing a Coal Strategy for Asset Management Companies, March 2020.

Physical and Transition risk

The European Central Bank (ECB) sees climate change as a balance of two risks: physical risk and transition risk. They can reinforce each other. After all, greater physical risk enforces a greater transition and postponing a transition leads to greater physical risk, in turn increasing transition risk as the transition time decreases significantly. The occurrence and intensity of those risks will depend on the path of policy implementation. Both Physical and Transition risks have climate-related and environmental components to them.

Risk affected	Physical		Transition	
	Climate-related	Environmental	Climate-related	Environmental
	• Extreme weather events • Chronic weather patterns	• Water stress • Resource scarcity • Biodiversity loss • Pollution • Other	• Policy and regulation • Technology • Market sentiment	• Policy and regulation • Technology • Market sentiment

Table 1: Definitions of Climate-related and Environmental Risks (CER), source: ECB[9] and ABN AMRO Bank N.V.

Both physical and transition risk are financial risks and can have a seriously negative influence on the value of investment portfolios and therefore jeopardise investor's interests.

Physical risks are those risks that impact our society directly and have the potential to affect the economy.[10] Examples of physical risks related to climate change are droughts, heatwaves, wildfires, tropical storms and floods and more long term temperature changes, biodiversity loss and rising sea levels. Physical risks can jeopardise business continuity, reducing business value and damaging the ability to generate profits and repay debts.[12]

Transition risks arise from the process of adjustment towards a net-zero carbon economy. Examples of transition risk are climate-related developments in policy and regulation, emergence of disruptive technology and business models, shifting sentiment and societal preferences, or evolving evidence, frameworks and legal interpretations.[11] Climate-related policies and regulation for instance enforce the speed of transition to a greener economy which in its turn has an effect on certain sectors and financial stability.[3] A transition, particularly if it is abrupt, can increase the probability of default on loans and write-downs of investments in companies with production processes that have a negative impact on biodiversity. Furthermore, liability claims or reputational damage can lead to higher operational risks.[12]

Biodiversity loss

Although already mentioned above, biodiversity loss should be highlighted separately, as we believe the awareness of the financial risks related to biodiversity is still very low (as opposed to the awareness of risks related to climate change). According to a report of the Dutch Central Bank (DNB)[12], biodiversity loss is considered to be one of the greatest risks to society and the economy. This is confirmed by the World Economic Forum's 2020 Global Risks Report[13], which ranked biodiversity loss as one of the five top risks of the next decade.
Next to its contribution to the acceleration of climate change, the loss of biodiversity threatens the health of ecosystems that provide important services to the economy, such as animal pollination of food crops, natural water treatment and fertile soil. Furthermore, biodiversity loss is an important driver of financial risks through both physical and transition risks.[12]

[9] ECB, Guide on climate-related and environmental risks (Nov 2020)
[10] Bank of England: https://www.bankofengland.co.uk/knowledgebank/climate-change-what-are-the-risks-to-financial-stability
[11] CFRF, *Climate Financial Risk Forum Guide 2020*, June 2020.
[12] De Nederlandsche Bank, Indebted to nature; Exploring biodiversity risks for the Dutch financial sector, June 2020
[13] https://www.weforum.org/reports/the-global-risks-report-2020

As an asset manager, we believe we can have an impact on mitigating biodiversity loss. By means of active ownership for instance (see chapter 3), we can raise awareness of these risks with our portfolio managers, so that they can engage on the topic with the companies in which they invest.

III. Climate-related and Environmental risks at AAIS

ABN AMRO Investment Solutions has an open architecture business model. We onboard external managers on our platforms. The portfolios offered via our platforms have to meet our sustainability requirements (the degree depends on the classification of the fund). AAIS uses a multidimensional approach to implement ESG criteria, this approach is explained in more detail in the Sustainability risk statement.
However, we want to highlight two aspects here:

- Negative screening we have in place to avoid exposure to certain industries/activities;
- Positive influence we aim to exert by active ownership.

Negative screening (exclusion)

We exclude companies active in certain industries or involved in certain activities. We do this because these investments are seen as financially “at risk” and/or are not in line with our purpose (see chapter 2).
The exclusions mentioned below are partially in place already and will be fully implemented by Q2, 2021 at the latest.

Current exclusions related to climate change applicable to the entire fund range (no tolerance)

- Companies that are non-compliant with the 10 principles of UN Global Compact. These principles include three environmental principles (principles 7, 8 and 9).
- Tobacco producing companies, e.g. growers and manufacturers of tobacco. Tobacco production can lead, among others, to deforestation (in turn resulting in increased CO2 emisisons and loss of biodiversity) and to pollution of land and water leading to loss of land and water ecosystems.

Climate change and biodiversity-related exclusions for ESG and Sustainable funds [14] (5% threshold unless stated otherwise)

- Genetically Modified Organisms. GMOs raise environmental concerns regarding the creation of new weeds, loss of land and water ecosystems by usage of toxic herbicides and pesticides.
- Arctic drilling, gas, oil (or tar) sand extraction methods. From a climate perspective, these extraction methods cause high emission levels (tar sands) and have severe consequences for (often fragile) ecosystems, such as areas of high biodiversity value.
- Companies with involvement (exceeding 50% of total turnover) in trading and/or wholesale of tobacco.

Specific exclusions related to thermal coal for ESG and Sustainable funds* [15]

- Coal mining. Coal releases more GHG (scopes 1, 2 and 3) than oil or gas for electricity generation. The carbon intensity of coal to generate electricity is 1050 gCO2e/kWh versus 443 gCO2e/kWh for natural gas.[16]
- Companies with involvement (exceeding 15% of total turnover) in thermal coal power generation. [17] The threshold will be lowered to 10% per 1st of January 2022.

In line with the 2030 commitment of the European Union, we are striving to finance no more European coal-related transactions per 2030 and to phase out coal financing at all per 2040 (the latter in line with the AFG guidelines).

*Hence, although the above mentioned exclusions on coal are currently only applicable to ESG and sustainable funds (article 8 and 9 under the SFDR), we will gradually expand these exclusions to the entire fund range (including funds in the category ‘other’ under SFDR), in order to meet the above mentioned phase out deadlines.

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[14] Funds applying our criteria to classify under the SFRD as articles 8 and 9.
[15] Focus on thermal coal (steaming coal), which is burned for steam to run turbines to generate electricity either to public electricity grids or directly by industry consuming electrical power (such as chemical industries, paper manufacturers, cement industry and brickworks).
[16] AFG: Guide to Developing a Coal Strategy for Asset Management Companies, March 2020.
[17] With the exception of Green Bonds (which may be issued by the same companies)

Active ownership

We see active ownership as engagement and voting at General Meetings. Although voting can be seen as a form of engagement, we split this process as engagement is done at the level of the individual portfolio manager and the exercise of proxy voting rights lies with ABN AMRO Investment Solutions. Over the past years we have observed an increase in Environmental and Social resolutions, thus enabling voting to be a more relevant tool to combat climate change.

Engagement

Engagement is the responsibility of the portfolio manager, as specific engagement goals depend on the investment strategy of the fund and the role ESG criteria have. A fund that wants to contribute to GHG reduction may engage in a different way with the holdings in its portfolio than a fund that focuses on biodiversity. Furthermore, a fund that has a value approach may engage in a different way than a fund that has a growth approach. However, regardless of these differences in approaches, there are always minimum sustainability performance (sustainable) portfolio managers are ought to expect from companies in their portfolios. We therefore ask our portfolio managers to comply with our engagement guidelines. Portfolio managers report on a yearly basis to ABN AMRO Investment Solutions on their engagement efforts.

Proxy Voting

Proxy voting is the responsibility of ABN AMRO Investment Solutions. We work with ISS Governance, which gives us voting recommendations in line with the policy we chose (a customised version of the ISS Governance International SRI Policy). From ISS' range of specialised policies, we selected the one that enables us to be most advanced in the area of Environmental and Social, implying that we will support the vast majority of E&S resolutions.

End note

Our Climate statement may evolve as some regulatory guidance documents are still under development and have not yet been released.

For years, ABN AMRO Investment Solutions is being working in close cooperation with providers and peers to channel ESG best practices and to offer to client a full range of ESG proof investment products.

ABN AMRO Investment Solutions aims to limit sustainability risks and preserve its reputation. We are aware that, despite of our efforts, we may introduce some baisses in our analyses (as we rely on external providers) and may invest indirectly (via external funds) in activities that we do not want to finance. We strive to minimise this.